Fourth Quarter 2009 Mutual Fund Commentary
RS Value Fund

Performance and Market Commentary

For the full year 2009, RS Value Fund (Class A Shares) generated a return of 38.01%, while the benchmark Russell Midcap® Value Index[1] posted a 34.21% return. During the fourth quarter of 2009, the Fund increased by 2.52% vs. a return of 5.21% for the Russell Midcap Value Index.

The Fund's results in 2009 were positive both in absolute terms and relative to the benchmark, which the Fund outperformed by 380 bps for the year. This outperformance is even more pronounced, however, when viewed on a risk-adjusted basis. 2009 was a year of extremes, with two distinct phases creating vastly different market environments. The initial period occupied most of the first quarter of 2009 and was characterized by a dramatic decline in the equity markets, as investors shunned risk in favor of higher quality franchises. Our focus on mitigating losses remains an integral component of the RS Value investment process. While this initial phase was a very challenging time for investors, the Fund's ability to better protect shareholder capital during this period was pivotal to its superior relative and absolute performance in 2009. This experience was consistent across all of the funds managed by our RS Value Team and underscores the importance of our intense focus on downside protection.

After the meaningful leg down during the first quarter, the market then entered its second phase of the year. Massive, coordinated government stimulus efforts across the globe reduced market fears and set the stage for a reflationary trade of historic proportions. With the probability of "going to zero" eliminated, the value of companies with too much balance sheet leverage and/or challenged business models, which had been left for dead under more draconian scenarios, snapped back. This second phase ushered in a "risk rally" where the best-performing stocks, across all capitalization ranges, were generally those with lower quality businesses and/or elevated levels of leverage. According to Bernstein Research, the lowest quality stocks outperformed the highest quality stocks by over 50% (or 5,000 bps) from March to December of 2009[2]. During this period, the Fund's investments gave back some relative performance. Long-time readers shouldn't be surprised that we have never positioned our shareholders' capital to maximize returns in this type of environment, as we do not believe that our investors will be adequately compensated for the level of risk that we would be assuming on their behalf. Instead, we continued to focus on owning structurally improving businesses that posess asymetrical risk-reward profiles. As such, we are pleased that the Fund was able to deliver full year results that exceeded the benchmark return during 2009.

Portfolio Positioning

Consumer, Business Services, Health Care, and Technology

Healthcare is an area where we have been especially active in allocating capital. As we enter 2010, the healthcare weighting in the Fund stands at over 9%, roughly double the healthcare weighting of our benchmark index. Our commitment to the healthcare opportunity was bolstered by last year's hiring of Dan Lang. Dan joined us from Farallon Capital, a large, diversified San Francisco-based money management firm, where he co-led the healthcare equity effort from 2003-2009. Dan earned his medical degree at Cornell, was chief medical resident at Mt. Sinai hospital in New York and was a Fellow in Cardiology and Post-Doctoral Research at the University of California, San Francisco. Investments in the healthcare sector often come down to having a solid understanding of the underlying science and medical efficacy of both existing and potential new products. In this regard, Dan's medical background has proved invaluable and we believe that he provides the RS Value Team with a significant competitive advantage when it comes to investing in the sector.

While typically an area of relative outperformance in times of market corrections due to its defensive characteristics, the healthcare sector was not spared during recent cyclical declines in the market. In fact, many segments of healthcare experienced significant volatility due to the uncertainty surrounding the government's healthcare reform efforts. The implications of proposed reforms in turn created several contrarian investment opportunities within the healthcare sector. Since the federal government began its negotiating process, we believed that reform would ultimately take a more centrist course and that the actual implications on many companies' cash flows would be far less detrimental than the assumptions implied in equity valuations. Perhaps more importantly, the market painted the sector with a very broad brush, failing to differentiate the better businesses from those more likely to be adversely affected by proposed reforms. A tremendous amount of solid grass roots research helped our team form a differentiated view that enabled us to make compelling healthcare investments. At the end of 2009, our three largest healthcare investments in the Value Fund were Biovail, Covidien, and St. Jude Medical, which are discussed in greater detail in the Appendix.

Outside of healthcare, we continue to allocate capital toward companies with less cyclical exposures that are undergoing company-specific changes that should lead to improving returns. Generally speaking, we remain cautious regarding more discretionary consumer businesses as we feel that the US consumer may face ongoing challenges relative to employment, high levels of consumer debt and volatility surrounding home prices. To the extent that we made investments that touch the consumer, we sought businesses that served less-discretionary needs. That said, we believe that over the next few years, we will be given the opportunity to purchase some outstanding consumer franchises at very attractive valuations. We also continue to focus on processing and other niche business services companies given their highly visible and steady toll-oriented revenue models.

Financials

As we progressed through 2009, the Fund's exposure to financial services increased as we became increasingly more constructive on the sector. During the year, our strategy was to be incremental buyers of financial services companies on either continued stock price weakness or in connection with additional capital raises. We patiently and opportunistically used market volatility to deploy capital toward those companies that we felt possessed solid capital positions, stable and reliable funding sources, strong management teams, and increasing returns on capital.

During 2009, the Fund's property & casualty and multi-line insurance investments were a drag on performance as our thesis regarding the potential for pricing improvements and market share gains failed to materialize (distressed competitors, such as AIG and The Harford, were better able to retain existing clients and less capacity was removed from the market than expected). That said, the financial services sector contributed positively to the Fund's full year attribution and we are pleased with the positioning of our financial services investments as we enter 2010.

In general, valuations within financials remain relatively attractive despite last year's significant move off of the bottom. Looking forward, we would expect the portfolio to continue its shift away from property & casualty insurance in favor of banks and life insurance. We are seeing some early signs that credit losses may be peaking, which will be the starting point for structural improvements in the return profiles of credit based financial institutions. Despite this near peak in credit losses, we are still able to make compelling banking investments, often at valuations equal to or even below book value. Our more constructive view is bolstered further by the fact that net interest margins have reached a secular low and that the better business models will ultimately benefit from the tremendous leverage associated with improving credit quality. In addition, we remain positive on the life insurance space where we expect continued improving returns that consistently exceed capital costs, better pricing on variable annuities and valuations that remain at or below tangible book value. With returns on new business improving at select banks and life insurance companies, we remain interested in those companies that possess sustainable longer-term business models.

Hard Assets

The hard asset pod is divided between businesses that we generically label as "Industrials" and those falling under the natural resource heading. The primary difference between the two groups relates to the laws of mean reversion. In industrials, processing and service oriented businesses,excess returns are typically competed away over time, which is why we focus on improvements in returns on invested capital when assessing investment opportunities. In contrast, returns on capital in the natural resource space are a function of where a company's producing assets sit on a supply cost curve. Effectively, returns are driven by the "quality of the rock" and, because geology doesn't change over our 3-5 year investment time horizon, returns on capital in the natural resource space are not subject to mean reversion. Because of this fundamental difference, each segment deserves its own separate commentary.

While the operating environment for many industrial companies has improved considerably over the last 12 months, so too has the market's willingness to discount a much more constructive future. We remain concerned about most companies' ability to generate positive pricing in a world where significant excess labor and manufacturing capacity persists, and believe that input cost inflation will remain a material challenge for the producers of finished goods. In addition, we are unwilling to bet on the sustainability of external stimulus efforts, particularly those that cannot be supported by underlying economics. As such, we have slanted our exposure towards the higher quality, more durable franchises within the industrial landscape. Interestingly, these businesses remain available in the market at much more attractive valuations than their more speculative peers, due in part to the "junk" rally that characterized much of 2009. We like purchasing these businesses at steep discounts to warranted value, as we believe that our downside risk remains limited. Even with the significant increase in stock prices over the last nine months, we remain convinced that the opportunity to own defensible, differentiated business models, run by outstanding management teams, will set the foundation for attractive future returns. If the market is correct, and the world is back to "normal", these companies will create significant value for shareholders. However, if it turns out that future prospects are less robust than many expect (or hope), we believe that the strong competitive positions that our companies maintain and the compelling valuations we paid upon entry will create value for shareholders over the long-term.

Our objective in managing investments within natural resources is to optimize risk adjusted returns across a full commodity price cycle. We do not believe that we have an edge in speculating on commodity price changes. Instead, we believe that we can best manage the risks inherent in natural resource investing by identifying and purchasing what we call "advantaged" assets. Advantaged assets sit at the bottom of a reasonably steep supply cost curve and generate excess returns on capital at any point in a commodity price cycle. These excess returns equate to value creation, which compounds to the benefit of long-term shareholders irrespective of increases or decreases in the commodity price. This process allows us to address the following risks:

- *Mean Reversion.* Relative cost advantages of individual assets are almost entirely due to geology and thus over time there is limited movement up and down the cost curve – low cost assets remain low cost assets. In other words, while commodity prices mean revert, the return profile of commodity producing assets do not.

- *Commodity Price Volatility.* If the cost curve is sufficiently steep, then low cost producers are protected against price volatility. This is because higher cost operators will be forced out of the market to sustain supply/demand equilibrium well before commodity prices are sufficiently depressed to undermine the low cost operator's returns on capital.

- *Value Creation.* Advantaged assets create value due to the excess returns on capital that they generate, and this value compounds over time. In addition, we employ a strict valuation discipline whereby we seek to purchase our interest at a discount to net asset value using conservative long-term commodity price assumptions. By identifying assets that grow in value over time, and purchasing them at a discount to current net asset value, we dramatically reduce the probability that our investments will sustain permanent capital impairment across our investment time horizon.

We accept that this approach may not maximize returns when commodity prices are rising rapidly, as we witnessed in 2007 and the first half of 2008. The offset is that in volatile or declining markets, and more importantly across a commodity price cycle, we believe that our focus on managing risk will allow us to generate superior returns for our investors. Thus, we continue to focus on understanding supply side economics for each commodity, and on identifying those commodities with reasonably steep cost curves. We contend that there are a finite number of advantaged assets for each commodity, and thus we tend to concentrate around the lowest cost projects while remaining broadly diversified across commodities.

Our longer-term outlook for natural resources remains positive. Supply costs for many commodities continue to rise for geological reasons, excess capacity remains relatively low, the longer-term demand trends from emerging market countries remain favorable, and the risk of inflation in basic commodities continues to rise. While we believe that the near term outlook is less certain, and likely to be quite volatile as a result, we contend that this is one of the most opportune times to deploy capital into the advantaged businesses. Our objective in the current environment is to continue to expose our shareholders to the most advantaged natural resource companies across the commodities spectrum when valuations are attractive. By doing so, we are best able to provide our investors with all the benefits associated with investing in the natural resource space, while also mitigating the associated risks. As long term investors, we believe that these are the markets that establish the foundation for strong future returns, and we are excited about the prospects moving forward.

Outlook

We are pleased with the Fund's results in 2009 given the macro, non-fundamentally driven market backdrop that persisted for much of the year. With the possibility for increasing interest rates, inflation and taxes conspiring to raise the market discount rate, we believe future performance will no longer be driven by the re-rating of expectations associated with a declining discount rate. Moreover, as we move into 2010, we think that the Fund is very well positioned for an environment where individual company-specific cashflow fundamentals are again relevant.

Our investment philosophy, which is focused on structural changes leading to improving returns, coupled with a strict valuation overlay, provides us with a repeatable investment process that is highly effective across market cycles. In addition, we strive to know our companies as well as anyone in the market and firmly believe that both our extensive bottom-up analysis and staffing levels convey a competitive advantage. We remain committed to our disciplined investment process that focuses on growing your capital over time.

We thank you as always for your patience and support.

Sincerely,

MacKenzie Davis, CFA
Co-Portfolio Manager

David Kelley
Co-Portfolio Manager

Joseph Mainelli
Co-Portfolio Manager

Andrew Pilara
Co-Portfolio Manager

Ken Settles, CFA
Co-Portfolio Manager

Joe Wolf
Co-Portfolio Manager

As with all mutual funds, the value of an investment in the Fund could decline, so you could lose money. Investing in small- and mid-size companies can involve risks such as having less publicly available information, higher volatility, and less liquidity than in the case of larger companies. Investing in a more limited number of issuers and sectors can be subject to greater market fluctuation. Overweighting investments in certain sectors or industries increases the risk of loss due to general declines in the prices of stocks in those sectors or industries. Foreign securities are subject to political, regulatory, economic, and exchange-rate risks not present in domestic investments. The value of a debt security is affected by changes in interest rates and is subject to any credit risk of the issuer or guarantor of the security. Investments in companies in natural resources industries may involve risks including changes in commodities prices, changes in demand for various natural resources, changes in energy prices, and international political and economic developments.

Any discussions of specific securities should not be considered a recommendation to buy or sell those securities. Fund holdings will vary.

Except as otherwise specifically stated, all information and portfolio manager commentary, including portfolio security positions, is as of December 31, 2009.

RS Funds are sold by prospectus only. You should carefully consider the investment objectives, risks, charges and expenses of the RS Funds before making an investment decision. The prospectus contains this and other important information. Please read it carefully before investing or sending money. To obtain a copy, please call 800-766-3863 or visit www.RSinvestments.com.

Appendix—Stock Examples

As previously discussed, Healthcare is an area where we have been especially active in allocating capital. At the end of 2009, our three largest healthcare investments in the Value Fund were Biovail, Covidien, and St. Jude Medical:

Biovail is a specialty pharmaceutical company. New management embarked on a novel strategy for the company nearly 18 months ago and is in the process of transforming the business from a drug delivery company to a focused pharmaceutical company specializing in treating central nervous system (CNS) disorders. Using the company's significant and stable legacy cash flows, management is reinvesting in its new strategy through both R&D and strategic M&A. We like the environment for such a strategy as Big Pharma is divesting from non-core product lines and smaller, earlier stage biotech companies are struggling to find venture financing to proceed with their development programs. In short, we believe Biovail is well positioned to take advantage of opportunities in both early and late stage drug development and we remain confident in management's ability to redeploy capital at very attractive returns. With the market discounting both negative growth and a declining return-on-capital profile, we think the risk/reward is quite favorable. This was an existing position that was added to at an average cost of $11.

Covidien is a medical device and supplies company. It was formerly part of Tyco and spun-out on its own in 2007. The market provided us with a great entry point for an investment in the company earlier in the year. As part of the Tyco conglomerate, the company had chronically underinvested in R&D and SG&A as the parent company siphoned off cash from its healthcare businesses to reinvest in other areas. When Covidien became an independent entity, management was able to make the necessary investments in these areas, which has in turn allowed the company to compete effectively and thrive. We believe Covidien's ROIC will steadily improve as high-margin new products add to the company's growth and as management continues pruning underperforming businesses.

St. Jude Medical is a medical device company developing products for the cardiac rhythm management, cardiovascular, and neuromodulation markets. The defibrillator market is entering a replacement cycle beginning in 2010, and St. Jude should benefit disproportionately as the competitive share gains that began five years ago are anniversaried. Combining the replacement cycle and double digit international market growth, St. Jude is well positioned to grow these high margin products at very attractive rates. In addition, the company invested heavily in expanding its sales force and manufacturing capabilities over the past two years. As these investments begin to pay off, St. Jude should be able to expand operating margins and improve company-wide ROIC. St. Jude's management team is one of the best in the medical device industry and we particularly like the fact that the CEO is a top ten shareholder. The opportunity to invest in this high quality company at a trough valuation came last fall when St. Jude missed third quarter sell-side earnings expectations, due to some one-time purchasing issues.

Southwestern Energy Company was a positive contributor to the Fund's return during the year. Southwestern Energy is an independent oil and gas company with the leading position in the low-cost Fayetteville Shale in Arkansas. While the company's shares benefited during 2009 from an increase in natural gas prices from unsustainably low levels, our investment in Southwestern is premised more on the view that the company will be able to reinvest in high-return gas projects, even in a lower price environment, by virtue of its low-cost asset base. Indeed, our analysis shows that while commodity producer stocks are positively correlated with changes in the price of the underlying commodity over short periods of time, commodity producer stocks tend to be much more closely correlated with returns on invested capital over longer periods of time – as is the case in any industry. Furthermore, differentiated returns between commodity producers tend to be a function of the significant differences in the cost structures that exist between producers, which, importantly, are caused by geology and thus tend to last for years. A review of the historical performance of Southwestern Energy shares versus its exploration and production (E&P) peers and the price of the underlying commodity highlights this important observation. Southwestern Energy shares, while correlated with natural gas prices and its competitors' share prices over short periods of time, have dramatically outperformed its higher-cost peers and the price of natural gas over the last several years because the company has been able to reinvest at very attractive rates of return. We expect this trend to continue. After studying Southwestern Energy's reinvestment opportunities and analyzing the unit-level economics of the projects that it will be pursuing over the next 3-5 years, we believe that the company will continue to generate very strong rates of return. This should support double-digit annual growth in Southwestern Energy's net asset value (NAV), even in a much lower commodity price environment.

Sector Allocation[3]
(As of 12/31/09)

Financial Services	32.21%
Consumer Discretionary	16.48%
Materials & Processing	9.29%
Producer Durables	9.21%
Health Care	9.15%
Energy	9.01%
Technology	7.61%
Utilities	1.89%
Cash	5.16%

Top Ten Holdings[4]
(As of 12/31/09)

Agilent Technologies, Inc.	4.54%
Comverse Technology, Inc.	3.76%
Biovail Corp.	3.33%
Career Education Corp.	3.31%
Talisman Energy, Inc.	3.09%
Ameriprise Financial, Inc.	2.97%
Martin Marietta Materials, Inc.	2.95%
Southwestern Energy Co.	2.87%
Scientific Games Corp., Class A	2.82%
Covidien PLC	2.74%

Performance
(Average Annual Total Returns as of 12/31/09)

	Fourth Quarter 2009	1-Year	3-Year	5-Year	10-Year	Since Inception[5]
RS Value Fund, Class A						
without sales charge	2.52%	38.01%	-5.85%	1.63%	9.09%	6.05%
with maximum sales charge	-2.37%	31.44%	-7.37%	0.65%	8.56%	5.74%
Russell Midcap® Value Index[1]	5.21%	34.21%	-6.62%	1.98%	7.58%	10.01%

Performance returns for periods of less than one year are not annualized.

Performance quoted represents past performance and does not guarantee future results. Investment return and principal value will fluctuate, so shares, when redeemed, may be worth more or less than their original cost. The Fund's total gross annual operating expense ratio as of the most current prospectus for the Class A Shares is 1.41%. Please refer to the most current Fund prospectus for complete details on expenses including fees. The performance quoted, unless otherwise indicated, does not reflect the current maximum sales charge of 4.75% that became effective on October 9, 2006. If the maximum sales charge were included, the performance stated above would be lower. Please read the prospectus carefully for more information on sales charges as they do not apply in all cases and if applied are reduced for larger purchases. Performance results assume the reinvestment of dividends and capital gains. Current and month-end performance information, which may be lower or higher than that cited and is available by contacting RS Investments at 800-766-3863 or visiting www.RSinvestments.com.

1 The Russell Midcap® Value Index is an unmanaged market-capitalization-weighted index that measures the performance of those companies in the Russell Midcap Index with lower price-to-book ratios and lower forecasted growth values. (The Russell Midcap® Index measures the performance of the 800 smallest companies in the Russell 1000® Index, which consists of the 1,000 largest U.S. companies based on total market capitalization). Index results assume the reinvestment of dividends paid on the stocks constituting the index. You may not invest in the index, and, unlike the Fund, the index does not incur fees or expenses.
2 Source: FactSet and Bernstein Research analysis, Equity Portfolio Strategy Materials, January 7, 2010. Bernstein's quality model, which includes six factors including ROE, sales growth, net margin and three stability metrics, determined average annualized relative returns of -15.0% for the highest quality quintile vs. +36.0% for the lowest quality quintile for the period from March 2009 to December 2009.
3 The Fund's holdings are allocated to each sector based on their Russell classification. If a holding is not classified by Russell, it is assigned a Russell designation by RS Investments. Cash includes short-term investments and net other assets and liabilities.
4 Portfolio holdings are subject to change and should not be considered a recommendation to buy or sell individual securities.
5 Class A shares inception date June 30, 1993.

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